401(k) vs. SIMPLE IRA Plans

Choosing the right retirement plan for your company involves some key decisions:

- Who and what type of employees are you trying to benefit?
- What benefits do you want for the selected group of employees?
- What administration costs are you able to pay?

Traditional 401(k):

A traditional 401(k) plan may offer you more flexibility than a *SIMPLE plan.* Plan providers offer different levels of prototype plans or varying options available under a particular plan: for example, an automatic enrollment option or varied vesting schedules. With a **traditional 401(k)**, you are not required to make employer contributions, and your employees can contribute up to an annual maximum as set by the Internal Revenue Service.

A **traditional plan** is subject to reporting obligations and tests:

- Average Deferral Percentage ("ADP") test
- Compares employee deferrals of highly compensated versus non-highly compensated employees.
- Average Contribution Percentage ("ACP") test
  Compares employer matching contributions and employee after-tax contributions.
- Top-Heavy Test
  Ensures the overall benefits in the plan do not favor key employees such as owners and officers.

These compliance tests must be performed annually, and failing a test may require additional contributions to bring the plan into compliance.

SIMPLE Plans:

Savings Incentive Match Plan for Employers *(SIMPLE)* plan makes it possible for companies with as few as two employees to establish a 401(k) or IRA. *SIMPLE* plans are designed for businesses with 100 employees or fewer who earn $5,000 or more per year. Two plan options exist: a *SIMPLE IRA* or *SIMPLE 401(k) plan.*

A *SIMPLE IRA* plan allows employees and employers to make contributions to Individual Retirement Arrangements (IRAs) set up for employees. These plans are typically for start-up employers who do not sponsor another type of plan and have fewer than 100 employees.

Under a *SIMPLE IRA* plan:

- the employer makes contributions to an individual account set up for each eligible employee;
- employees defer a part of their salaries into the plan for retirement;
- the plan is funded both by employer and employee contributions; and
- each employee is always 100% vested in his or her *SIMPLE IRA.*

An employer is required to make a contribution to the plan and can choose to:

- make a non-elective contribution of at least 2% of compensation for all eligible employees earning at least $5,000; **or**
- make a matching contribution of at least 100% up to the first 3% of compensation.

The *SIMPLE 401(k) plan* is offered so that small business owners can have a cost-effective way to offer retirement benefits to their employees. The *SIMPLE 401(k)* is not subject to annual nondiscrimination testing and does allow for loans. Contributions to a *SIMPLE 401(k)* are immediately 100% vested, which means that an employee who meets the requirements to receive distributions from the plan may withdraw his/her entire account balance at any time. Also, the contribution limits are lower for a *SIMPLE 401(k)* plan than for a **traditional 401(k) plan.**

Eligible employers must have no more than 100 employees who have received at least $5,000 in compensation from the employer for the previous year. Employers cannot maintain any other retirement plan for employees who are eligible to participate in the *SIMPLE 401(k)*; however, they may choose to maintain a second retirement plan to cover those employees who are not eligible to participate in the *SIMPLE 401(k) plan.*

Plan Comparison for 2017

Feature	Traditional 401(k)	SIMPLE IRA
Maximum Employee Deferral (For pretax and Roth)	$18,000	$12,500
Roth 401(k) Contribution Option	Yes; subject to deferral limit shown above	No
Catch-up Contributions (For participants 50 or Older)	$6,000	$3,000
Employer Contribution	Discretionary	Mandatory: 100% up to 3% match; or 2% non-elective contribution
Vesting Schedule Allowed	Yes	No
Loans	Yes	No
ADP/ACP Testing	Yes (can be waived under Safe Harbor Plan Design)	No
Top-Heavy Testing	Yes (can be waived under Safe Harbor Plan Design)	No
Compatible with Profit Sharing Plans	Yes	No
Can require 1 year of service & 1,000 hours for eligibility purposes	Yes	No
Premature Withdrawal Penalty	10%	25% (first 2 years)
Participant Access to Account for Withdrawals	No	Yes
Plan Administration Required	Yes	No
If I want to terminate this plan and begin a new one, when can this be done?	At anytime	Only at the end of the year

Choosing a fitting retirement plan is one of the most important financial decisions a business owner can make. The retirement plan not only allows employers to claim a tax deduction for contributions, but can also attract and retain valuable employees. It may be best to consult with your tax or financial advisor when choosing or adopting either a *SIMPLE* or **Traditional 401(k) plan**.

Remember a good plan design is one of the most important components to a successful plan. Because there are so many variations to 401(k) plans today it is essential that you work with a knowledgeable third party administrator. This individual is highly trained in plan design and can ensure that you have a plan that will meet your company and individual objectives.

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